

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Joe Morolong Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Joe Morolong Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis of disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment, as the fixed asset register did not reconcile to the amounts presented. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment stated as R1 286 536 423 (2018: R1 834 579 327 in note 8 in the financial statements) were necessary. In addition, I was unable to determine whether any adjustments to depreciation and amortisation stated as R0 (2018: R47 597 968) in note 29 in the financial statements were necessary.

Cash and cash equivalents

4. The municipality did not have adequate systems in place to account for cash and cash equivalents in accordance with GRAP 1, *Presentation of financial statements*, which resulted in cash and cash equivalents being understated by R2 834 566. Consequently, investments are overstated by R2 781 448. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence regarding cash and cash equivalents, as a result of poor accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to cash and cash equivalents stated as R3 736 418 in note 3 in the financial statements were necessary.
5. During 2018, I was unable to obtain sufficient appropriate audit evidence regarding the bank overdraft balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to bank overdraft stated at R9 017 501 in note 3 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year

financial statements was also modified because of the possible effect of this matter on the comparability of the bank overdraft for the current period.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions, as the age analysis did not reconcile to the amounts presented. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from exchange transactions as stated as R106 950 506 (2018: R 84 467 957) and the allowance for impairment stated at R54 056 948 (2018: R54 056 948) in note 5 in the financial statements were necessary.
7. During 2018, the municipality did not have adequate systems in place to account for receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, which resulted in receivables from exchange transactions being overstated by R8 711 414. There was a resultant impact on the accumulated surplus in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from exchange transactions for the current period.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence regarding receivables from non-exchange transactions, as the age analysis did not reconcile to the amounts presented. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to receivables from non-exchange transactions as stated at R36 662 542 (2018: R51 058 026) and the allowance for impairment stated at R31 051 329 (2018: R31 051 329) in note 6 in the financial statements were necessary.
9. During 2018, the municipality did not have adequate systems in place to account for receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments*, which resulted in receivables from non-exchange transactions being understated by R12 296 792. Consequently, revenue from non-exchange transactions are understated by R12 296 792. There was a resultant impact on the accumulated surplus in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the receivables from non-exchange transactions for the current period.

Revenue from exchange transactions

10. The municipality did not have adequate systems in place to account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, which resulted in service charges being understated by R9 798 143. Consequently, receivables from exchange transactions are understated by R9 798 143. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence regarding revenue from exchange transactions, as the municipality did not prepare accurate and complete schedules that reconciles to the amounts presented. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions as stated as R25 903 756 (2018: R35 515 037) were necessary.

11. During 2018, the municipality did not have adequate systems in place to account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, which resulted in service charges being overstated by R11 512 398. There was a resultant impact on the accumulated surplus in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the revenue from exchange transactions for the current period.

Revenue from non-exchange transactions

12. The municipality did not have adequate systems to maintain records of revenue from non-exchange transactions in accordance with GRAP 23, *Revenue from non-exchange transactions*, which resulted in government grants and subsidies being overstated by R5 302 749. Consequently, unspent conditional grants are understated by R6 820 749. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as revenue from non-exchange transactions. I was unable confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to revenue from non-exchange transactions stated at R268 753 363 in the financial statements.

Payables from exchange transactions

13. The municipality did not have adequate systems in place to account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, which resulted in payables from exchange transactions being overstated by R3 249 354. Consequently, vat receivables are understated by R2 511 288. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of payables from exchange transactions. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables from exchange transactions stated at R79 638 149 (2018: R49 867 720) in note 12 to the financial statements was necessary.

14. During 2018 the municipality did not have adequate systems in place to account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*, which resulted in payables from exchange transactions being understated by R10 985 029. There was a resultant impact on the accumulated surplus in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the payables from exchange transactions for the current period.

Unspent conditional grants

15. During 2018 I was unable to obtain sufficient appropriate audit evidence regarding unspent conditional grants, due to an inadequate management, accounting and information system to account for unspent conditional grants and the filing system not functioning effectively. Consequently, I was unable to determine whether any adjustment to unspent conditional grants stated at R6 143 529 in note 15 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the unspent conditional grants for the current period.

Transfers and subsidies

16. The municipality did not have adequate systems in place to account for transfers and subsidies in accordance with GRAP 1, *Presentation of financial statements*, which resulted in transfers and subsidies being overstated by R13 143 038. Consequently, property plant and equipment was understated by R13 143 038. This also has an impact on the surplus and on the accumulated surplus in the financial statements.
17. During 2018, I was unable to obtain sufficient appropriate audit evidence regarding the transfers and subsidies. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to transfers and subsidies stated at R34 902 779 in note 35 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the transfers and subsidies for the current period.

Contracted Services

18. The municipality did not have adequate systems in place to account for contracted services in accordance with GRAP 1, *Presentation of financial statements*, which resulted in contracted services being overstated by R24 089 692. Consequently, consulting fees were understated by R21 880 772. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence regarding contracted services, due to an inadequate management, accounting and information system to account for operating expenditure and the filing system not functioning effectively. Consequently, I was unable to determine whether any adjustment to contracted services stated at R24 089 692 (2018: R15 694 345) in note 34 to the financial statements was necessary.

General Expenses

19. The municipality did not have adequate systems in place to account for general expenses in accordance with GRAP 1, *Presentation of financial statements*, which resulted in general expenses being understated by R4 819 083 (2018: R8 891 534). Consequently, payables from exchange transactions were understated by R2 610 163. This also has an impact on the surplus and on the accumulated surplus in the financial statements.

20. During 2018, I was unable to obtain sufficient appropriate audit evidence regarding the general expenses. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to general expenses stated at R32 895 612 in note 36 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the general expenses for the current period.

Value-added tax (VAT) receivable

21. The municipality did not have adequate systems in place to account for VAT, which resulted in VAT being overstated by R3 265 249. This also has an impact on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence regarding VAT receivable. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT receivable stated at R30 139 575 (2018: R43 922 399) in note 7 to the financial statements was necessary.

Employee benefit obligation

22. The municipality did not have adequate systems in place to account for employee benefit obligation in accordance with GRAP 25, *Employee benefit obligation*, which resulted in employee benefit obligation being understated by R11 212 128. Consequently, employee costs were understated by R6 588 408 and payables from exchange transactions overstated by R4 623 720. This also has an impact on the surplus and on the accumulated surplus in the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of employee benefit obligation. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to employee benefit liabilities stated at R5 192 439 (2018: R5 636 984) in note 14 to the financial statements was necessary.

Irregular expenditure

23. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the prior years and the lack of a proper system of internal control to support and account for and identify irregular expenditure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R128 506 676 (2018: R125 949 361) in note 46 to the financial statements was necessary.

Deviations

24. The municipality did not have adequate systems in place to account for deviations, as required by section 36(2) of the Municipal Supply Chain Management Regulation, which resulted in deviations being understated by R2 853 270.

Unauthorised expenditure

25. The municipality did not have adequate systems in place to account for unauthorised expenditure, as required by section 125(2)(d)(i) of the MFMA, which resulted in unauthorised expenditure being understated by R53 200 380 (2018: R75 522 690). In addition, I was unable to obtain sufficient appropriate audit evidence regarding unauthorised expenditure due to the limitations placed on the scope of my work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify unauthorised expenditure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure stated at R499 085 094 (2018: R494 513 096) in note 44 to the financial statements was necessary.

Fruitless and wasteful expenditure

26. During 2018, I was unable to obtain sufficient appropriate audit evidence regarding the fruitless and wasteful expenditure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure stated at R4 239 338 in note 45 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the fruitless and wasteful expenditure for the current period.

Commitments

27. The municipality did not have adequate systems in place to record commitments, which resulted in commitments being understated by R11 233 322 (2018: R15 129 817). In addition, I was unable to obtain sufficient appropriate audit evidence as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments to commitments stated at R19 300 886 (2018: R56 742 199) in the note 40 to the financial statements were necessary.

Related parties

28. The municipality did not have adequate systems in place to account for related parties, in accordance with GRAP 20, *Related Party Disclosures*, which resulted in related parties being understated by R4 132 566.

Contingencies

29. The municipality did not have adequate systems in place to account for contingent liabilities and, in accordance with GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*, which resulted in contingent liabilities and being understated by R14 032 520.

Provisions for landfill sites

30. The municipality did not have adequate systems in place to account for provisions for landfill sites, in accordance with GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*, which resulted in provisions for landfill sites being overstated by an unquantifiable amount, as there were various errors in the assumptions used by management. Additionally, there was a resultant impact on the surplus and on the accumulated surplus in the financial statements.

Finance lease liability

31. The municipality did not have adequate systems in place to account for finance lease liability, in accordance with GRAP 13, *Leases*, which resulted in finance lease liability being understated by R5 467 826. Consequently, property plant and equipment was understated by R5 467 826. This also has an impact on the surplus and on the accumulated surplus in the financial statements.

Financial Instruments

32. The municipality did not have adequate systems in place to account for financial instruments, in accordance with GRAP 104, *Financial Instruments*, which resulted in financial instruments not being disclosed and accounted for in the financial statements of the current year and the prior year. I was unable to determine the impact of this misstatement as it was impracticable to do so.

Distribution losses

33. In terms of Section 125(2)(d)(i) of the MFMA requires that the annual financial statements of a municipality are required to disclose particulars of any distribution losses. No distribution losses were disclosed in the notes to the annual financial statements for the current and prior year due to the municipality not implementing adequate control measures to reliably calculate these losses. In the absence of sufficient appropriate documents, I was unable to determine the full extent of the understatement in distribution losses.

Cash flow statement

34. I was unable to obtain sufficient appropriate audit evidence for the current and previous year regarding the cash flow statement as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow statement in the financial statements.

Statement of comparison of budget and actual amounts

35. The municipality did not have adequate systems in place to properly account for budgeted amounts disclosed in the statement of comparison of budget and actual amounts in accordance with GRAP 24, *Presentation of budget information in financial statements*. The impact on the financial statements is that variances analysis will not be correct.

Emphasis of matter

36. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

37. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors discovered in the financial statements of the Joe Morolong Local Municipality at, and for the year ended, 30 June 2019.

Other matters

38. I draw attention to the matters below. My opinion is not modified in respect of this matters.

Unaudited disclosure notes (MFMA 125)

39. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary schedules

40. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

41. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

42. In preparing the financial statements, the accounting officer is responsible for assessing the Joe Morolong Local Municipality ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

43. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was

unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

44. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* and the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

Report on the audit of the annual performance report

Introduction and scope

45. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
46. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
47. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in the annual performance report
Strategic focus area 2: Infrastructure and service delivery	XX – XX
Strategic focus area 3: Land, housing and environment	XX – XX

48. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

49. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Strategic focus area 2 - Infrastructure and service delivery

Provision of dry sanitation

50. The strategic objective approved in the integrated development plan was provide sanitation. However, the strategic objective reported in the annual performance report was provision of dry sanitation. In addition to this, the strategic objective was changed without obtaining the necessary approval.

Number of dry sanitation units erected

51. The planned target approved in the service delivery and budget implementation plan was 600 units for dry sanitation completed and 600 happy letters submitted to council by June 2019. However, the target reported in the annual performance report was 600 happy letters submitted for dry sanitation units erected, before the end of June 2019 and the reported achievement referred to was 300 units were erected. In addition to this, target reported was changed without obtaining the necessary approval.

Various Indicators

52. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Number of villages prioritized for access to new water infrastructure	4	0
Number of dry sanitation units erected	300	189

Strategic focus area 3 - Land, housing and environment

Various Indicators

53. The indicators listed below, as per the service delivery and budget implementation plan, were different to the indicators reported in the annual performance report and the reported achievement. In addition to this, indicators reported were changed without obtaining the necessary approval.

Initial indicator	Revised indicator	Reported achievement
Number of reports on sports field maintained	Number of Sports field maintained	Target not achieved There was no sports maintenance

Number of community halls maintained	Number of reports on Community halls maintained	Target achieved -4 reports on maintenance of community halls were done
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Various Indicators

54. The planned targets for the indicators listed below, as per the service delivery and budget implementation plan, were different to the targets reported in the annual performance report and the reported achievement. In addition to this, targets reported were changed without obtaining the necessary approval.

Indicator description	Initial target	Revised target	Reported achievement
Number of establishment of Hotazel landfill site	1 established Hotazel landfill site by June 2019	4 reports on the establishment of Hotazel landfill site by June 2019	Target not achieved Landfill site was not established
Number of recreational facilities cleaned	Cleaning of 25 recreational facilities by June 2019	4 reports on cleaning of 25 recreational facilities by June 2019	Target achieved - 4 reports on cleaning of 25 recreational facilities

Various indicators

55. There was no clear and logical link between the indicator and target and the strategic objective to which it relates, for the indicators and targets listed below.

Initial indicator	Revised indicator	Initial target	Revised target
Number of establishment of Hotazel landfill site	Number of establishment of Hotazel landfill site	1 established Hotazel landfill site by June 2019	4 reports on the establishment of Hotazel landfill site by June 2019
Number of recreational facilities cleaned	Number of recreational facilities cleaned	Cleaning of 25 recreational facilities by June 2019	4 reports on cleaning of 25 recreational facilities by June 2019
Number of reports on sports field maintained	Number of Sports field maintained	4 Sports fields maintained by June 2019	4 Sports fields maintained by June 2019
Number of community halls maintained	Number of reports on Community halls maintained	4 community halls maintained by June 2019	4 Community Halls maintained by June 2019

Number of surveyed sites at Vanzylsrus

56. The planned target for this indicator was not specific in clearly identifying the nature and required level of performance.

Various Indicators

57. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance as reported in the annual performance report for the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Planned target	Reported achievement
Number of Surveyed sites at Vanzylsrus	Approved and Registered Surveyed sites at Vanzylsrus by June 2019	Target not achieved The survey was not done
Number of Properties Transferred from John Taolo-Gaetsewe District Municipality to Joe Morolong Local Municipality	87 properties registered under Joe Morolong Local Municipality as per the Tittle Deeds Register by June 2019	Target not achieved No property was registered

Various Indicators

58. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of the indicators listed below as reported in the annual performance report.

Indicator description	Planned target	Reported achievement
Number of households provided with refuse removal services in Hotazel and Vanzylsrus	1144 households provided with refuse removal services in Hotazel and Vanzylsrus by June 2019	Target achieved - 1144 households were provided with refuse removal services in Hotazel and Vanzylsrus
Number of recreational facilities cleaned	4 reports on cleaning of 25 recreational facilities by June 2019	Target achieved - 4 reports on cleaning of 25 recreational facilities
Number of reports on Community halls maintained	4 Community Halls maintained by June 2019	Target achieved -4 reports on maintenance of community halls were done

Other matter

59. I draw attention to the matter below.

Achievement of planned targets

60. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings expressed on the usefulness and reliability of the reported performance information in paragraphs XX and XX of this report.

Report on the audit of compliance with legislation

Introduction and scope

61. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

62. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements and annual reports

63. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

64. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

65. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and written explanation setting out the reasons for the failure were not tabled in council as required by section 133(1)(a) of the MFMA.

66. The 2017/18 annual report was not made public after being tabled in council, as required by section 127(5)(a) of the MFMA.

67. The local community was not invited to submit representations in connection with the 2017/18 annual report, as required by section 127(5)(a) of the MFMA.

68. The oversight report adopted by the council on the 2017/18 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

69. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

70. Payments were made from the municipality's bank account without the approval of properly authorised official, as required by section 11(1) of the MFMA.
71. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.
72. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
73. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.
74. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R196 704, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
75. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph.

Revenue management

76. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
77. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
78. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
79. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for municipal service charges were prepared on monthly basis, as required by section 64(2)(c) of the MFMA.

Assets management

80. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
81. Sufficient appropriate audit evidence could not be obtained to determine if capital assets were permanently disposed that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
82. Sufficient appropriate audit evidence could not be obtained to determine if capital assets were transferred or disposed of without the municipal council having in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services and considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) and 14(2)(b) of the MFMA.

Liability management

- 83. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.
- 84. Bank overdraft was incurred for reasons other than those allowed as per section 45(1) of the MFMA.
- 85. Bank overdraft was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2)(a) of the MFMA.
- 86. Bank overdraft was not repaid within the financial year, as required by section 45(4) of the MFMA.

Strategic planning & performance management

- 87. The SDBIP for the year under review did not include monthly revenue projections by source of collection as required by section 1 of the MFMA.
- 88. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, review and reporting processes should be conducted, organised and managed, as required by municipal planning and performance management reg 7(1).

Procurement and contract management

- 89. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as supporting documentation could not be provided for audit purposes. Similar limitations were also reported in the prior year.
- 90. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c).
- 91. Sufficient appropriate audit evidence could not be obtained that quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
- 92. Sufficient appropriate audit evidence could not be obtained that quotations were awarded only to providers who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
- 93. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
- 94. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
- 95. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

96. Sufficient appropriate audit evidence could not be obtained that contracts were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
97. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
98. Sufficient appropriate audit evidence could not be obtained that some extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
99. Sufficient appropriate audit evidence could not be obtained that performance of some of the contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
100. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

HR management

101. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Consequences management

102. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
103. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

104. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
105. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
106. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
107. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the

other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

Internal control deficiencies

108. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters above, as they relate to the basis for the disclaimer of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:
109. The accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
110. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
111. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information, review and monitor compliance with laws and regulations. The accounting officer did not adequately review the financial statements and the annual performance report before submitting them for auditing, resulting in the audit outcome remaining stagnant.
112. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported.

113. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

114. An audit committee and internal audit was not effective in the financial year even though it was appointed in the year.

Auditor General

Kimberley

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence